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USAID FOR MNE/LAUDATO AND MCCLOUD

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TAGS: [EAID](#) [ECON](#) [PREL](#) [PGOV](#) [ENRG](#) [KDEM](#) [EG](#)
SUBJECT: MINISTER FOR INTERNATIONAL COOPERATION RENEWS
REQUEST FOR DEBT RELIEF, LEGACY PROGRAM

Classified by Ambassador Margaret Scobey for reason 1.4 (d).

¶1. (U) This is an action message. See paragraph 16 for action requested.

¶2. (C) SUMMARY; The Ambassador paid an introductory call on Minister for International Cooperation Fayza Abulnaga on May 4, accompanied by USAID Mission Director and Econ Counselor (notetaker). During the meeting the minister passed a formal written request to use Egypt's ESF after FY 2009 to pay Egyptian debt to the US, and to reprogram funds from Egypt's cash transfer agreements to fund a legacy program. The debt proposal does not appear to have been coordinated within the GOE but, as the minister made clear, the issue is not debt relief per se but rather debt relief as a way to remove the issue of ESF spending as an irritant from the bilateral dialogue. In a discussion about the current food crisis, the minister said that the GOE has decided against reforms to the food subsidy program but has agreed to raise energy prices, including gasoline. ACTION REQUESTED: Abulnaga's Washington interlocutors should brief the minister on how legacy programs in other countries work, and on the Administration's understanding of the purpose of the language in the draft FY 2008 Senate budget bill on creation of a conditioned endowment. Also, in response to her concerns about the results of the direct democracy and governance (D&G) grants, we would like to be able to brief the GOE on the results of the upcoming review of the D&G program. END SUMMARY.

¶3. (C) The Ambassador paid an introductory call on MIC Minister Fayza Abulnaga on May 4, accompanied by USAID Mission Director and econ counselor (notetaker). The Minister warmly welcomed the Ambassador and regretted how in the day-to-day turmoil the accomplishments of thirty years of cooperation can be overlooked. Abulnaga will visit Washington May 6-8, and in addition to her meeting with U/S Fore will have a series of meetings on the Hill. In her review of the assistance program, Abulnaga underlined the positive achievements of thirty years of cooperation. She noted that she meets regularly with the press, the public and parliament and always stresses what has been accomplished by the bilateral assistance program.

Egypt's food crisis

¶4. (C) Abulnaga said that at last week's cabinet meeting, ministers spent three hours discussing the food crisis. She noted that the cost of food subsidies in Egypt has gone from LE 9 billion (\$1.6b) in FY 2007-08 to LE 15 billion (\$2.8b) planned for FY 2008-09. Although the GOE would like to move from food subsidies to cash support to the poor, the timing is very difficult, and some planned reforms have been delayed. The cabinet has decided instead, she said, to increase prices of gasoline and other forms of energy, but those increases would be designed to spare Egypt's most vulnerable. There is also concern, she said, in the wake of the thirty percent wage increase for public sector workers

announced last week, that inflation will also pick up. The government will keep a close eye on the retail sector, according to the minister, to keep the inflationary impact of the wage hike to a minimum.

15. (C) The cabinet is considering other ways to mitigate increasing food costs, including increased local wheat production and an improvements in handling imported wheat. Abulnaga said the GOE commissioned two studies of the wheat distribution system in Egypt and both had found significant waste in transport, storage and processing; one study estimated 15 percent losses, the other thirty percent. The GOE is now considering construction of fifty new grain silos to reduce spoilage.

Future of US Assistance

16. (C) Abulnaga noted disappointment in the planned \$200m FY 2009 ESF level and said just at the time "we have to do more (in reference to rising food prices) we are getting less." The Ambassador responded that the \$200 million is a reflection of Egypt's economic success, and other demands on USG resources. She emphasized that the \$200 million figure for FY 2009 was also accompanied by a medium-term commitment from the Administration to stay at the \$200 million level over the next five years.

17. (C) Abulnaga reviewed recent discussions over aid and noted Egyptian proposals over the past two years were the product of considerable thought. "This is a very good relationship that needs to be nurtured," she said, "because it meets our common strategic interests." She said Egypt understands that ESF will not continue indefinitely, and that

was why the Egyptian proposals had included provisions for phasing out annual authorizations in favor of an endowment proposal. Egypt agrees that the relationship should move from aid to trade and investment, but "it is a pity that we missed the opportunity to do a gradual phase out" of the program. Instead, she argued that using future ESF to pay down debt, and reprogramming unobligated balances associated with the two cash transfer programs to create a legacy program, would protect the bilateral relationship and end annual debates and tension over assistance and conditionality.

18. (C) Abulnaga gave the Ambassador a new proposal to use all of Egypt's FY 2009 and subsequent ESF to pay Egypt's debt (sep e-mail). She plans to raise this proposal in her May 8 meeting with U/S Fore and elsewhere this coming week in Washington. In explaining the GOE decision to request an end to new USAID programming, Abulnaga said Egypt sees its bilateral relationship with the US as symbolic, and something they wish to maintain. The US made what she described as a unilateral decision to cut assistance in half in one year, pushing Egypt into a corner, and cited the problem of debt service, noting that Egypt's payments on debt to the US will exceed ESF levels starting in FY 2009, which is "unacceptable."

19. (C) Abulnaga explained that her government is willing to reprogram unobligated balances under the cash transfer programs to fund a legacy program, with the understanding that the money would not be conditioned. She asked for clarification of language in the Senate version of the 2008 budget bill that mentioned creation of an endowment but with conditionality. She also wondered about mechanisms used elsewhere to establish other kinds of legacy programs, and what legal requirements and conditionality they might entail.

Her expectation is that current programs will require another \$200 million to run until their scheduled close-out. As of FY 2009, then, the remaining money will be put towards Egypt's debt. She cited the cases of Jordan and Pakistan as models for an Egyptian debt treatment program using ESF and argued that it could be done under Egypt's existing Paris Club agreement. She predicted that there are ways other than through ESF funding for Egypt to get the technical assistance it needs from the USG.

¶10. (C) The Ambassador responded that the US had not responded positively to Egypt's November 2007 debt proposal for both economic and political reasons. She predicted Congress will likely be concerned about using ESF to pay debt, rather than to support political and economic reform. In response to the Ambassador's observation that this proposal would end bilateral cooperation on a wide range of issues, the Minister argued that in fact it would "upgrade" the relationship. "We wanted to arrive at this decision jointly, and we thought we were working in good faith toward that end." We find ourselves "cornered" by the unilateral USG decision to dramatically reduce ESF and the proposal is an effort to "work with the US in a way that does not nurture the negativity" in public opinion about the US. Abulnaga plans to explain this latest proposal to contacts on the Hill this week. Abulnaga described debt relief as more than "just numbers" for Egypt. "It is a way to change the relationship. This would be a costly operation for us," she added, but stems from our "a very genuine concern to render this relationship a healthy one." In her view, ending the assistance program would "upgrade" the relationship, put it on a "healthier basis" and "avoid the thorny issues."

Cash transfer programs

¶11. (C) Abulnaga also raised the subject of the unobligated balances associated with the Financial Sector and Human Resources Development cash transfer programs. "We have a balance we don't know what to do with. There are a lot of conditionalities attached to disbursements," she complained.

Direct D&G Funding

¶12. (C) Finally, Abulnaga said, what really complicates the entire program is the issue of direct USG funding of NGOs in Egypt. She said she has "no quarrel" with direct funding to NGOs, underlining how much progress this represents on Egypt's part. "We have given away the authority of consent" on this program, in part because we wanted to see more Egyptians benefiting from training and education on human rights and democracy issues, among others. She noted, however, that the US and Egypt had agreed to certain rules in the administration of the grants. "Our experience so far," she said, "has not been very encouraging. The program feeds into those who want to make the US image (in Egypt) even worse." The minister also complained about "a certain lack

of transparency" and what the GOE considers a violation of the agreement. She also noted that the US side had not been interested in working with the consultative group of Egyptians set up under the 2004 agreement, and that the group had disbanded.

¶13. (C) In Abulnaga's analysis, USAID is under pressure from Congress and is trying to spend more money on D&G programs in Egypt than local NGOs can absorb. This has led, she said, to a situation in which USAID is funding civil companies and offshore activities in order to maintain spending levels. The Ambassador responded that we consider the D&G programs to be a constructive, additional set of activities along with everything else we are doing to support Egypt's reform program. She predicted the USG will be interested in funding these sorts of activities no matter what the future of Egypt's ESF program. We have been transparent with the GOE in where we are spending the money, and if we have been operating in a "gray area" in terms of funding civil companies, it was with the full knowledge of the government. The US would like to find a solution to this issue that Egypt is comfortable with but that also allows us to have a credible program and meet our legal requirements. The government of Egypt could have helped, she observed, if NGO registration had been more predictable and regular.

¶14. (C) Responding, Abulnaga noted that "not every NGO is as innocent as they appear" and cited security concerns as the reason for government control over NGO activity. She also complained about the perception "the US is giving money

regardless of the view of the Egyptian government." From the first announcement of the program, she said, the government and people of Egypt have opposed this direct funding and "they continue to oppose it." She agreed that the bilateral D&G programs are very important, but said "there is no way on earth you can spend \$30 million" in direct grants to civil society.

¶15. (C) COMMENT: Minister Abulnaga appears determined, with the backing of her government, to continue to raise both the level of FY 2009 ESF, as well as using it to pay Egypt's debt. (We have sent a copy of the latest GOE proposal on debt by separate e-mail to the Department.) The latest proposal reiterates the GOE's November 2007 proposal to use ESF in FY 2009-2013 to eliminate Egyptian ESF debt in the first two years and then apply the last three years to PL-480 debt. It is not clear that this has been coordinated with Egypt's Ministry of Finance, and from Abulnaga's comments it appears that she does not have all the details straight about the Jordanian and Pakistani debt deals, and how they would or would not apply to Egypt. The fundamental issue does not, however, appear to be debt relief but rather debt relief as a way to remove the issue of ESF spending from the bilateral dialogue, which Egypt considers to be a major irritant. It is not yet clear if Egypt is raising these issues again as a way to keep them in play until a new Administration takes over, or if they intend to push it to a definitive conclusion this year. The minister also spoke about using cash from the cash transfer programs to fund a legacy program but we do not yet know if this means that the GOE realizes they may not meet some of the cash transfer benchmarks or if they will propose abandoning the cash transfer programs entirely.

¶16. (C) ACTION REQUESTED: While the minister is in Washington, it would be useful for her to have a briefing on how legacy programs in other countries work. She would appreciate a briefing on the Administration's understanding of the purpose of the language in the draft Senate bill on the creation of a conditioned endowment for Egypt. We have mentioned the planned May assessment of the D&G programs to MIC officials, and expect that Minister Abulnaga will raise this in her meeting with U/S Fore.
SCOBey